

CITY OF EARLHAM

**INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES**

**FOR THE PERIOD
JULY 1, 2020 THROUGH JUNE 30, 2021**

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City of Earlham

City of Earlham

Officials

<u>Name</u>	<u>Title</u>	<u>Expires</u>
Jeff Lillie	Mayor	Jan 2022
Andrew Baskin	Council Member	Jan 2024
Brock Fredericksen	Council Member	Jan 2024
Chris Swalla	Council Member	Jan 2022
Brant Payne	Council Member	Jan 2022
Scott Petersen	Council Member	Jan 2022
Mary Sue Hibbs	Clerk	Indefinite
Sam Braland	Attorney	Indefinite



FALLER, KINCHELOE & CO, PLC

Certified Public Accountants

Independent Accountant's Report on Applying Agreed-Upon Procedures

To the Honorable Mayor and Members of the City Council:

We performed the procedures below, which were established at Iowa Code Chapter 11.6, to provide oversight of Iowa cities. Accordingly, we have applied certain procedures to selected accounting records and related information of the City of Earlham for the period July 1, 2020 through June 30, 2021, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Earlham's management, which agreed to the performance of the procedures performed, is responsible for compliance with these requirements and for the City's records.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards for attestation engagements contained in Government Auditing Standards, issued by the Comptroller General of the United States. The City of Earlham's management has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose to report, in accordance with Chapter 11.6 of the Code of Iowa, recommendations pertaining to selected accounting records and related information of the City including the City's compliance with certain Code of Iowa recommendations. This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

The procedures we performed are summarized as follows:

1. We observed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We obtained an understanding of the City's internal controls to determine if proper control procedures are in place and incompatible duties, from a control standpoint, are not performed by the same employee.
3. We observed surety bond coverage for compliance with Chapter 64 of the Code of Iowa.

4. We obtained and observed the City Clerk's financial reports and selected bank reconciliations to determine whether the bank balances properly reconciled to the general ledger account balances and monthly financial reports provided to the City Council.
5. We scanned City funds for consistency with the City Finance Committee's recommended Uniform Chart of Accounts (COA) and to determine required funds and fund balances are properly maintained and accurately accounted for.
6. We observed the City's fiscal year 2021 Annual Financial Report to determine whether it was completed and accurately reflects the City's financial information.
7. We scanned investments to determine compliance with Chapter 12B of the Code of Iowa.
8. We scanned depository resolutions, the City's investment policy and reporting of unclaimed property to the State of Iowa to determine compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa.
9. We scanned debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
10. We scanned selected tax increment financing (TIF) transactions, including receipts, disbursements and transfers, for compliance and accurate accounting, including compliance with the TIF reporting requirements of Chapter 384.22 of the Code of Iowa.
11. We observed the City's TIF debt certification forms filed with the County Auditor, including requests for collection of reduced TIF amounts and to decertify certain TIF obligations, as applicable, for proper support and compliance with Chapter 403.19(6) of the Code of Iowa.
12. We traced selected receipts to accurate accounting and consistency with the recommended COA.
13. We traced voter approved levies to proper authorization in accordance with Chapter 384.12 of the Code of Iowa.
14. We traced selected disbursements to proper approval, adequate supporting documentation, accurate accounting and consistency with the recommended COA and compliance with the public purpose criteria established by Article III, Section 31 of the Constitution of the State of Iowa.
15. We traced transfers between funds to proper authorization and accurate accounting and to determine whether transfers were proper.
16. We traced selected payroll and related transactions to proper authorization and accurate accounting and determined whether payroll was proper.

17. We observed the annual certified budget for proper authorization, certification and timely amendment.

Based on the performance of the procedures described above, we identified various findings and recommendations for the City. Our findings and recommendations are described in the Detailed Findings and Recommendations section of this report. Unless reported in the Detailed Findings and Recommendations, items of non-compliance were not noted during the performance of the specific procedures listed above.

We were engaged by the City of Earlham's management to perform this agreed-upon procedures engagement and conducted our engagement in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review engagement, the objective of which would be the expression of an opinion or conclusion, respectively, on specific accounting records and related information of the City, including compliance with specific Code of Iowa requirements. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

We are required to be independent of the City of Earlham and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.

The purpose of this report is to report, in accordance with Chapter 11.6 of the Code of Iowa, certain agreed-upon procedures and the resulting findings and recommendations pertaining to selected accounting records and related information of the City, including the City's compliance with certain Code of Iowa requirements. This report is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Earlham during the course of our agreed-upon procedures engagement. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



Faller, Kincheloe & Co, PLC

December 6, 2021

Detailed Findings and Recommendations

CITY OF EARLHAM
DETAILED RECOMMENDATIONS
For the period July 1, 2020 through June 30, 2021

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one or two individuals have control over each of the following areas for the City of Earlham (City):

1. Cash – handling, reconciling and recording.
2. Investing – recordkeeping, investing, custody of investments and reconciling earnings.
3. Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
4. Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
5. Payroll – recordkeeping, preparation and distribution.
6. Debt – recordkeeping, compliance and debt payment processing.
7. Utilities – billing, collecting, depositing and posting.
8. Financial reporting – preparing and reconciling.
9. Journal entries – preparing and journalizing.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City should review their control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations should be evidenced by the signature or initials of the reviewer and the date of the review.

- (B) Bank Reconciliations – The savings and investment balances in the City's general ledger were not reconciled to bank and investment account balances throughout the year. For the two months reviewed, bank and book balances did not properly reconcile.

Recommendation – The City should establish procedures to ensure bank and investment account balances are reconciled to the general ledger monthly. Variances, if any, should be reviewed and resolved timely.

- (C) Reconciliation of Utility Billings, Collections and Delinquent Accounts - Utility billings, collections and delinquent accounts were not reconciled throughout the year.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period. The City Council or other independent person designated by the City Council should review the reconciliations. The reviews should be documented by signing or initialing and dating the reconciliations.

- (D) Financial Condition – At June 30, 2021, the City had deficit balances of \$4,889 and \$131,480 in the Special Revenue, Employee Benefits Fund and the Capital Projects Fund, respectively.

Recommendation – The City should investigate alternatives to eliminate these deficits in order to return these funds to a sound financial condition.

CITY OF EARLHAM
DETAILED RECOMMENDATIONS
For the period July 1, 2020 through June 30, 2021

- (E) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Jeff Lillie, Mayor Owner of Lillie Plumbing	Repairs and maintenance	\$4,221

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the above transactions with Lillie Plumbing do not represent a conflict of interest since the total transactions were less than \$6,000.

- (F) Disbursements – We noted some disbursements which were misclassified on the City's accounting records.

Recommendation – The City should implement procedures to ensure all disbursements are properly classified on the accounting records.

- (G) Utility Rates – We noted that beginning in May 2021, for water service, the water rates charged by the City to customers were different than the water rates as noted in the ordinance.

Recommendation – The City should ensure the water rates charged to customers agree to the water rates as established by ordinance.

- (H) Annual Urban Renewal Report (AURR) – The City's beginning cash balances, ending cash balances and receipts in the Special Revenue, Tax Increment Financing Fund as reported on the Levy Authority Summary do not agree with the City's records.

Recommendation – The City should ensure the balances and activity reported on the AURR Levy Authority Summary agree with the City's records.

- (I) Water Revenue Notes – The provisions of the water revenue notes require sufficient monthly transfers to be made to a separate water revenue note sinking account for the purpose of making the note principal and interest payments when due. The City has not consistently made timely transfers to the water revenue note sinking account during the fiscal year.

Recommendation – The City should ensure timely monthly transfers are made to the water revenue note sinking account as required.

CITY OF EARLHAM
DETAILED RECOMMENDATIONS
For the period July 1, 2020 through June 30, 2021

- (J) Certified Budget – Disbursements during the year ended June 30, 2021 exceeded the amounts budgeted in the general government function. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

- (K) Payroll – Instances were noted where authorization for employee rates of pay could not be located.

Recommendation – The City should ensure supporting documentation exists for all employee rates of pay.

- (L) Water Revenue Notes – The City’s 2020B water revenue note resolutions require repayment of the principal and interest solely from the net receipts of the Enterprise, Water Fund and state the debt repayments are not payable in any manner by taxation. The City paid for \$13,995 of water revenue note interest from the Debt Service Fund.

Recommendation – The City should make a corrective transfer from the Enterprise, Water Fund to the Debt Service Fund. In the future, the City should also ensure that the principal and interest related to the water revenue notes is paid from the Enterprise, Water Fund.